

Privatizing Municipally-Owned Housing

Kosice, Slovakia



Background

In 1993 a law was passed in Slovakia that charged municipalities with implementing housing privatization. Initially, municipalities took no action to privatize the municipally-owned housing stock because the prices for residential units mandated by the law were deemed too low. At the same time, citizens saw no benefits to privatization and did not pressure municipalities to begin the process. Local governments need to relieve themselves of the responsibility of maintaining their housing stock, inform citizens of the benefits of privatization and their rights and responsibilities as owners, and encourage the establishment of effective owners' associations. Most Slovak municipalities attempted to accomplish these objectives through the publicly-owned housing maintenance companies, even though public housing management had proven problematic and inefficient. The housing maintenance firms, which had managed municipal housing stocks for the past forty to fifty years, discouraged privatization because of the likelihood that they would lose business as a result.

Innovation

To speed up the process of housing privatization and remove the conflict of interest posed by the use of local housing maintenance companies, the City of Košice (population 250,000) established a separate housing privatization office within the local government in the summer of 1994. The office was staffed with a lawyer and a technical expert who prepared procedures, written information, and forms to facilitate privatization and to help citizens understand the rights and responsibilities of ownership. A private firm was hired to computerize and process the large numbers of housing sales contracts and technical information concerning privatization that was beyond the capacity of the city to handle. Public meetings and media were used to educate the citizens of Košice about the benefits of home ownership and their rights and responsibilities.

Košice did not want to be left with a large number of mixed ownership buildings because mixed ownership makes consensus building regarding maintenance and expenditures more difficult due to conflicts between public and private interests and decision-making processes. To encourage 100 percent privatization within a given building, Košice built financial incentives into the pricing structure and gave priority to buildings in which all residents intended to purchase the units they occupied. The city forfeited a small amount of revenue in so doing but avoided the decision-making difficulties associated with partially privatized buildings and created stronger condominium associations with 100 percent owner occupancy.

The costs involved in implementing this innovation included the salaries of the employees of the new office, housed in Košice City Hall, as well as a private firm's fee for computerizing information. All costs were covered by the city budget.

Results

Setting up a separate privatization office facilitated the privatization of municipal housing to such an extent that Košice now has the highest percentage of privatized municipal housing in Slovakia at 36.6 percent (11,000 units). The privatization office has assisted citizens in the purchasing process and has helped organize over 100 owners' associations so that privatized buildings would be managed more effectively. Housing privatization has had the effect of relieving the city of the burden of subsidization, maintenance, and management of much of its municipal housing stock. In addition, owners are taking better care of their homes and common areas. This practice is replicable in any country where municipalities are responsible for housing privatization.

Summary

To speed up the process of housing privatization and remove the conflict of interest posed by the use of local housing maintenance companies, the City of Kosice established an independent housing privatization office within the city government. Setting up a separate privatization office relieved the City of the burden of subsidization, maintenance, and management of much of its housing stock.

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